

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 AID-20 IGA-02 CIEP-02 COME-00 EB-11

FRB-02 OMB-01 TRSE-00 XMB-07 L-03 CIAE-00 INR-09

NSAE-00 RSC-01 INRE-00 SS-14 NSC-10 RSR-01 /098 W
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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 5606

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E. O. 11652: GDS

TAGS: EFIN, ID

SUBJECT: GOI MEDIUM TERM BORROWING AND IMF STANDBY

REF: JAKARTA 2953

1. SUMMARY - IN SEPARATE MEETINGS WITH IMF AND IBRD
REPS, I HAVE DISCUSSED STATUS AND OBSTACLES TO RESOLUTION
OF IMF STANDBY ISSUE. PROSPECT FOR STANBY RENEWAL
AGREEMENT BEFORE MAY IGGI MEETING APPEARS DIM ACCORDING
IMF REP APPRAISAL. ALTHOUGH IBNU NOW APPEARS FAVORABLY
DISPOSED TO DISCUSS RESOLUTION OF IMF/ IGGI DIFFICULTIES,
THERE REMAINS SERIOUS COMMUNICATION GULF BETWEEN
FINANCE MINISTER AND PERTAMINA'S GENERAL IBNU. I AND
IBRD REP WILL MEET FINANCE MINISTER TOMORROW
MORNING TO URGE UTMOST EFFORT TO COMMUNICATE WITH
PERTAMINA AND RESOLVE PRESENT IMPASSE. END SUMMARY

2. ON MARCH 14 I, USAID DIRECTOR, AND E/ CM COUNSELOR
MET WITH IMF REP ON STATUS OF GOI/ IMF STANDBY DISCUSSION
AND RELATED DEVELOPMENTS. I REVIEWED RECENT SERIES OF
DISCUSSIONS ON THE SUBJECT INVOLVING VP AGNEW, EXIM
PRESIDENT KEARNS AND MYSELF WITH GOI OFFICIALS AND
PERTAMINA PRESIDENT DIRECTOR GENERAL IBNU SUTOWO. I NOTED
MINISTER SALIM'S RECENT CRITICISM OF INCONSISTENCIES OF
US POSITION, REFERRING \$50 MILLION PROGRAM LOAN UNTIL GOI
AND IMF RESOLVE DEBT CONTROL PROBLEM ON ONE HAND, WHILE
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MAKING LARGE LOAN OFFERS THROUGH EXIM TO PERTAMINA ON THE OTHER HAND. I EXPRESSED VIEW THAT, BECAUSE OF MAJOR RESOURCE PROJECTS NOW ENDING, DIFFERENT APPROACH AND DIMENSION TO QUESTION OF STANDBY CEILINGS WOULD SEEM NECESSARY. SOME MECHANISM IS NEEDED, I SUGGESTED, WHICH WOULD ENABLE BOTH GOVERNMENT, IMF AND DONORS TO BE AWARE OF MAGNITUDE OF NON- CONCESSIONAL BORROWING PLANNED BY PERTAMINA AND ECONOMIC VIABILITY OF PROJECTS TO BE UNDERTAKEN WITH SUCH BORROWING.

3. IMF REP EMPHASIZED THAT FUND NEEDS INFORMATION ON ADDITIONAL PERTAMINA BORROWINGS OF WHICH FUND AWARE BUT GOI HAS NOT YET REPORTED. HE SAID IMF MISSION LEFT INDONESIA WITHOUT RECEIVING REQUEST FOR STANDBY RENEWAL OR DISCUSSION OF PERFORMANCE CRITERIA WHICH GOI WOULD UNDERTAKE TO MEET. IMF REP BELIEVES GOI WAS NOT YET IN POSITION TO DISCUSS THIS MATTER, WHICH NOW POSTPONED FOR LATER DISCUSSION IN WASHINGTON. IMF ALSO NEEDS MORE COMPLETE DATA ON DRAWINGS BY PERTAMINA, AND BELIEVES ESSENTIAL THAT MECHANISM BE ESTABLISHED FOR EVALUATION OF NEW BORROWING NEEDS. HE ENVISAGED POSSIBILITY OF FEASIBILITY STUDIES CONDUCTED BY PERTAMINA BOARD OF SUPERVISORS INDEPENDENTLY, OR JOINTLY BY BOARD AND PERTAMINA.

4. IMF REP INDICATED FUND WOULD HAVE DIFFICULTY WITH FORMULA FOR NEW STANDBY CEILING WHICH WOULD INVOLVE CEILING ADJUSTMENTS DURING STANDBY YEAR AS FEASIBILITY OF MAJOR PROJECTS IS ESTABLISHED, BUT DID NOT RULE OUT SUCH POSSIBILITY ALL TOGETHER. TO OUR SURPRISE, HE WAS VERY DOUBTFUL THAT AGREEMENT ON STANDBY RENEWAL COULD BE REACHED PRIOR TO MAY IGGI MEETINGS, RATHER HE HAS SUGGESTED GOI DETERMINE WHAT ASSURANCES DONNORS MIGHT SEEK

AND FIND ACCEPTABLE AT IGGI MEETING IN ABSENCE OF STANDBY RENEWAL. IMF REPS UNDERSTANDS FINANCE MINISTER WARDHANA HAS IN MIND ISSUING REGULATIONS TO IMPLEMENT GOVERNMENT DECREE NO. 59 OF OCTOBER 12, 1972 (WHICH PROHIBITS PUBLIC SECTOR BORROWING WITHOUT PRIOR FINANCE MINISTRY APPROVAL). HE EXPECTS FINANCE MINISTRY MAY INCLUDE PENALTIES FOR NON- COMPLIANCE IN REGULATIONS. HE BELIEVES ISSUANCE OF THESE REGULATIONS WOULD BE IMPORTANT

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STEP TOWARD ESTABLISHMENT EFFECTIVE BORROWING CONTROLS.

5. USAID DIRECTOR POINTED OUT APPARENT MISTAKEN
IMPRESSION BY GOI THAT IMF UNWILLING CONSIDER STANDBY

CEILING SUBSTANTIALLY ABOVE PRESENT LEVEL. HE URGED
IMF TO DISABUSE GOI OF THIS IMPRESSION AND MAKE GOI
UNDERSTAND THAT WHERE MAJOR PROJECT JUSTIFICATION
WARRANTED, IMF PREPARED TO CONSIDER QUANTUM CHANGE IN
CEILING.

6. ON MARCH 15, USAID DIRECTOR, E/ CM COUNSELOR AND I
DISCUSSED SAME MATTERS WITH IBRD REP DAVID GORDON AND I
REITERATED MY CONCLUSION THAT SITUATION CALLS FOR
FOLLOWING STEPS: GOI SHOULD PRESENT TO IMF (A) TOTAL
BORROWING REQUIREMENTS, INCLUDING CONCESSIONAL AND
MEDIUM TERM BORROWING NEEDS; (B) PROFILE OF EXPECTED
RETURNS FROM PROJECTS WHICH SELF- FINANCING IN MEDIUM
TERM AND SUITABLE FOR COMMERCIAL FINANCING. GOI SHOULD
ALSO ESTABLISH SYSTEM TO SCRUTINIZE AND PROVIDE ASSURANCES
TO IMF AND IGGI THAT ADEQUATE JUSTIFICATION EXISTS FOR
MEDIUM TERM BORROWING TO CARRY OUT THESE PROJECTS. I
NOTED MY FEELING THAT MOST URGENT NEED AT THIS POINT IS
TO BRING ABOUT COMMUNICATION BETWEEN TECHNOCRATS AND
GENERAL IBNU -- AND SAID I TAKE SOME ENCOURAGEMENT FROM
GENERAL IBNU' S APPARENT RECOGNITION OF NEED FOR PERTAMINA
TO COME TO TERMS WITH IMF AND IGGI CONSIDERATIONS.

7. GORDON AGREED WITH MY ASSESSMENT OF URGENCY AND
INDICATED IBRD WOULD BE WILLING TO PROVIDE 4 OR 5
FINANCIAL ANALYSTS TO ASSIST GOI IN ESTABLISHING SUIT-
ABLE MECHANISM FOR PROJECT EVALUATION. FIRST, HOWEVER
CONCEPT MUST BE ACCEPTED BY GOI AND REQUEST FOR ASSISTANCE
MADE, HE NOTED.

8. IN LIGHT OF POSSIBLY FAVORABLE IBNU ATTITUDE, VERY
LIMITED TIME BEFORE IGGI MEETING, AND DEPARTURE OF
FINANCE MINISTER WARDHANA NEXT WEEK FOR WASHINGTON, WE
AGREED ON DESIRABILITY OF GETTING IBNU AND TECHNOCRATS
TO SIT DOWN TOGETHER AND DISCUSS PROBLEM AS SOON
AS POSSIBLE. I HAVE APPOINTMENT WITH MINISTERS WARDHANA
AND WIDJOJO FOR TOMORROW MORNING TO RAISE THIS MATTER
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URGENTLY WITH THEM, IN COMPANY WITH GORDON, USAID
DIRECTOR AND E/ CM COUNSELOR.
GALBRAITH

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